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Annual Cotton Report

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Report Highlights:

Post forecasts a 23 percent decline in Zimbabwean cotton production for the 2012/13 MY, due to the negative impact a new price control intervention by government will have on investments by the private sector. Zimbabwe's cotton output rose by 10 percent to 275,000 MT in the 2011/12 MY from 250,000 MT in the 2010/11 MY, on increased area planted due to improved world cotton lint prices.

Zimbabwe's cotton lint exports is expected to drop by more than 30 percent to 315,000 bales in the 2012/13 MY.

Industry background

Cotton is an important agricultural commodity in Zimbabwe, especially for smallholder farmers. Cotton is Zimbabwe's second largest agricultural foreign currency earner after tobacco and in 2011 earned more than US$ 200 million in foreign currency. Commercial cotton production started more than 100 years ago in Zimbabwe, but it is now predominantly grown by smallholder farmers on average plots between one and two hectares. Due to the small areas cultivated, the production of cotton is labor intensive as most of the production is done by hand. An estimated 250,000 smallholder farmers produce 99 percent of Zimbabwe's cotton crop, mainly through contract farming schemes with cotton ginning companies.

In August 2009, the Zimbabwean government introduced new cotton legislation (SI142 of 2009) under the Agricultural Marketing Authority (AMA) to ensure the long term viability of the cotton industry by regulating the entire chain from production to marketing. The legislation has brought order, fairness and consistency in volumes and quality in the cotton sector. The new regulation compels all contractors, buyers and growers to be registered under AMA and a total of fourteen contractors registered for the 2011/12 MY. Cotton growers are required to register annually by the end of October, while cotton contractors and buyers are required to register annually by the end of August.

The legislation also compels each registered contractor to provide all necessary inputs to farmers at the start of the planting season. In addition, it gives prosecuting powers to the Cotton Marketing Technical Committee (CMTC), created by government in 2009, to manage the legislation. The legislation combats "side-marketing" or the non-honoring of contracts by growers through section 14 that makes it obligatory for growers to only sell their cotton to the contractor that supported them with inputs. Through the legislation, common input distribution and buying points have been established throughout the country. The regulation has established a clearer and stable legal framework for improved relations between growers and contractors.

Currently, about 95 percent of the cotton crop is grown through contract arrangements. This system helps smallholder farmers who lack financial resources and cannot borrow funds, due to a lack of collateral, to obtain inputs. In addition, cotton contractors have their own experienced extension officers who offer technical assistance to farmers and also issue farmers with specialized picking bags to avoid on-farm contamination of the cotton. Contract farming has contributed to stability and growth of the cotton industry by providing inputs (seed, fertilizers and chemicals) and extension services to cotton growers, thereby ensuring consistent production.

However, in June 2012, the Zimbabwean government intervened in the cotton industry and gazette Statutory Instrument 106 A of 2012 that makes cotton a controlled product. The Statutory Instrument gives the Minister of Agriculture the power to fix cotton prices. This has created uncertainty among contractors who funded the crop and there is a high possibility of them failing to recover their costs. Hence, contractors are likely to hold back on funding inputs for cotton in the 2012/13 MY.

Cotton production

Post forecasts for the 2012/13 MY that planted cotton area will decrease by 35 percent to 300,000 hectares and production by 23 percent to 210,000 tons, due to the government's intervention program. Furthermore, the prevailing low international lint prices will discourage some farmers from growing cotton.

The area planted with cotton increased by 18 percent from 380,000 hectares in the 2010/11 MY to 450,000 hectares in the 2011/12 MY. The firm world market prices motivated farmers to increased the cotton area in the 2011/12 MY. As a result, cotton production is estimated to increase by 10 percent from 250,000 MT in the 2010/11 MY to 275,000 MT in 2011/12 MY. However, average yield is expected to decrease from 0.7t/ha in 2010/11MY to 0.6t/ha in the 2011/12 MY, due to an unfavorable rainfall season. The bulk of Zimbabwe's cotton crop is grown under rain-fed conditions. Table 1 indicates the area planted and production of cotton in Zimbabwe for the 2010/11 MY (actual), 2011/12 MY (estimate) and 2012/13 MY (forecast).

Table 1: Cotton Production in Zimbabwe

Marketing Year	2010/11	2011/12	2012/13
Area planted (ha)	380,000	450,000	300,000
Area harvested	380,000	450,000	300,000
Seed cotton production (MT)	250,000	275,000	210,000
Yield (t/ha)	0.7	0.6	0.7
Lint production MT or ('000 – 480lb bales)	102,500 MT (470 bales)	112,750 MT (517 bales)	86,100MT (395 bales)

Source: Cotton Ginners Association

Zimbabwe has 752,050 MT ginning capacity available (see also Table 2), hence extra processing capacity exist if cotton production could be improved. Zimbabwe has the potential to double the current average cotton seed yields of about 0.7 t/ha to 1.4 t/ha if a new policy outlook regarding genetically modified crops is adapted. Currently, Zimbabwe does not allow the commercial production of genetically modified cotton, but allows non-commercial testing of Bt varieties under the supervision of the Biotechnology Authority of Zimbabwe.

Table 2: Ginning capacity available in Zimbabwe

Company name	Ginning capacity (MT seed cotton)
Cottco	343,300
Cargill	125,400
Olam	35,400
Alliance	44,500
Romsdal	31,900
Grafax	48,600
Insing	13,700
Parrogate	55,000
Cottzim	25,000
Fahad	13,200
Sinozim	25,000
Total	**752,050**

Source: Cotton Ginners Association

Prices

Until recently, cotton prices in Zimbabwe were determined through negotiations between farmers and ginners and approved by AMA. In May, AMA has set minimum prices between US$0.36 and US$0.50 per kg, depending on the grade and based on the prevailing international cotton price outlook for cotton (see Table 3). Farmers, on the other hand, expected a minimum price of US$0.45 per kg. After reaching a deadlock, the Government intervened and gazette Statutory Instrument 106 A of 2012 that makes cotton a controlled product. The Statutory Instrument gives the Minister of Agriculture the power to fix cotton prices. The Minister of Agriculture has not yet announced any prices and ginners are buying at prices between US$0.30/kg and US$0.35/kg.

This intervention by the Zimbabwean Government will negatively impact investment by the private sector (contractors) and will result in reduced cotton area planted and production in the 2012/13 MY.

Table 3: Seed cotton grades and prices 2011/12 MY and 2010/11 MY

Seed Cotton Grade	**Minimum producer price (US cents/kg) 2011/12 MY**	**Producer price (US cents/kg) 2010/11**
Grade A	48 – 50	105
Grade B	44 – 48	96
Grade C	40 – 43	89
Grade D	36 – 39	85

Table 4: PSD table for cotton

Cotton	2010/2011	2011/2012	2012/2013

Zimbabwe						
	Market Year Begin: Aug 2010		Market Year Begin: Aug 2011		Market Year Begin: Aug 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	380	0	450	0	300
Area Harvested	400	380	470	450	425	300
Beginning Stocks	216	216	186	151	231	103
Production	500	470	525	517	475	395
Imports	0	0	0	0	0	0
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	716	686	711	668	706	498
Exports	425	430	375	460	400	315
Use	90	90	90	90	90	90
Loss	15	15	15	15	15	15
Total Dom. Cons.	105	105	105	105	105	105
Ending Stocks	186	151	231	103	201	78
Total Distribution	716	686	711	668	706	498
Stock to Use %	36	29	50	19	41	19
Yield	272.	269.	243.	250.	243.	287.
TS=TD		0		0		0

Cotton Lint

Production

In the 2012/13 MY, post forecasts that cotton lint production will decrease by 23 percent to 86,100 MT (395,000 bales), on a decrease in area planted due to new policy interventions that control the producer price of cotton. In the 2011/12 MY cotton lint production increased by ten percent to 112,750 MT (517,000 bales) on increased area planted. In the 2010/11 MY about 102,500 MT (470,000 bales) cotton lint was produced.

Consumption

The Zimbabwean government has set a lint quota for the domestic textile industry. Cotton ginners are allowed to export 70 percent of their total annual lint production and retain 30 percent for the local textile industry requirements. However, currently the local spinning industry's lint consumption is far less than the allocated quota and the surplus lint is channeled to the export market. Domestic lint off take in the 2011/12 MY is estimated at 5,000MT. The Zimbabwean government has now targeted the textiles and clothing sector as a priority area in its Industrial Development Policy to ensure economic growth.

Trade

Due to the negative impact of the new price control intervention on investment by the private sector, Zimbabwe's cotton lint exports is expected to drop by more than 30 percent to 315,000 bales in the 2012/13 MY. Zimbabwe's cotton lint is exported to various destinations around the world. Data collected from Zimstats (Ministry of Finance) is shown on Table 4 below.

Table 5: Export trade matrix for cotton lint

Export Trade Matrix	
Country	Zimbabwe

Commodity	Cotton lint		
Time Period	CY	Units:	MT
Exports for:	2010		**2011**
U.S.	0	U.S.	0
Others		Others	
South Africa	22,006	South Africa	58,665
Thailand	4,016	Indonesia	948
Italy	2,072	Mozambique	5,598
Singapore	14,036	Singapore	14,569
UK	12,980	UK	1,306
Bangladesh	7,827	Bangladesh	699
Japan	2,780	Switzerland	998
United Arab Emirates	4,541	United Arab Emir	4,429
China	7,550	China	1,527
Portugal	3,180	Portugal	597
Colombia	1,252	Colombia	1,697
Lesotho	4,173	Lesotho	1,169
Pakistan	2,518	Pakistan	398
Mauritius	1,718	Mauritius	832
Total for Others	90,649		93,432
Others not Listed	9,089		53
Grand Total	99,738		93,485

Lint exports in 2011 decreased slightly compared to 2010 exports. The high export figure for South Africa (63 percent of exports) is due it being a warehousing centre prior to re-export of lint to other destinations. The Far East and Asia accounted for 24 percent of the exports where Singapore, United Arab Emirates and China were the main export destinations.

As no major improvements are anticipated in the domestic textile sector domestic lint consumption is likely to remain well below the 30 percent quota of 33,825 MT. Domestic consumption in 2012 is forecast at around 5,000 MT and exports are forecast to reach more than 100,000 MT.

Stocks

The ending stocks for the 2011/12 MY decreased as exports increased due to the low domestic consumption of lint. Ending stock will decrease even further in the 2012/13 MY on lower cotton seed production.